



Public Participation in the Budget Process in the Republic of Korea

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In January 2013, the International Budget Partnership (IBP) released the latest Open Budget Survey (OBS) with a new section on public participation. The survey results are not encouraging. For the 100 surveyed countries, the average score for public participation in the budget process is 19 out of 100. However, one country stands out. With a score of 92, Korea emerges as the only country “that provides extensive opportunities for public engagement” (IBP 2012, 33). What makes Korea an exception? This note investigates the different public participation mechanisms in Korea and illustrates how public inputs are reflected in the country’s budget process and fiscal policies.

Why Did Korea Foster Public Participation in Its Budget Process?

Beginning with Korea’s democratic transition in the 1980s, citizens’ awareness of and demand for transparency and reforms heightened. The role of NGOs in monitoring government policy and budget allocations began to increase and the government started to take them seriously. In 2003, former President Moo-Hyun Roh took office; his emphasis was on fiscal transparency and public participation. The Budget Office introduced significant public financial management (PFM) reforms in 2003, including a medium term expenditure framework (MTEF), performance-based budgeting, and integrated financial management information systems.

The introduction of an MTEF, with budget allocations based on multiyear expenditure ceilings, improved the budget process, but this change posed a potential problem. Without credible and legitimate mechanisms for setting the multiyear ceilings and sticking to them, the rationale for the ceilings could be undermined, and enforcement by the Ministry of Finance on the line ministries could become difficult. To help bind the line ministries to the ceilings, the budget authorities

built on the political regime’s core philosophy of participatory government and decided to include stakeholders in different stages of the budget formulation for specific purposes. Participation in the budget formulation process provided a mechanism through which government could assert that a realistic expenditure ceiling had been established and that the government’s hands were tied in any attempt to renegotiate the ceiling. On the budget implementation and settlement side, citizen’s involvement was encouraged to improve the government’s effort to properly execute the budget. The public participation mechanisms established by this regime continued to be maintained by President Myoung-Bak Lee, an opposition politician who came to office in 2008. In fact, his administration developed these mechanisms further and encouraged local government involvement in the budget mechanism to enhance fiscal transparency and cooperation between central and local government.

Korea’s Public Participation Mechanisms

Korea’s public participation mechanisms are closely aligned with the formulation and execution cycle of the annual budget and the MTEF.

There are six main mechanisms: (1) formalized “Open Discussion for the Public” (ODP); (2) meetings with local government officials by central government agencies and field trips; (3) a fiscal policy advisory meeting; (4) an Assembly Experts Hearing; (5) a budget waste reporting center; and (6) public participation in audits by the Board of Audit and Inspection (BAI). Each mechanism plays a specific role in the overall budgeting process, ensuring a practical approach to monitoring its effectiveness in obtaining and using public inputs. Multiple mechanisms are scheduled throughout the budget cycle for different purposes, as shown in Figure 1.

Open Discussion for the Public (ODP)

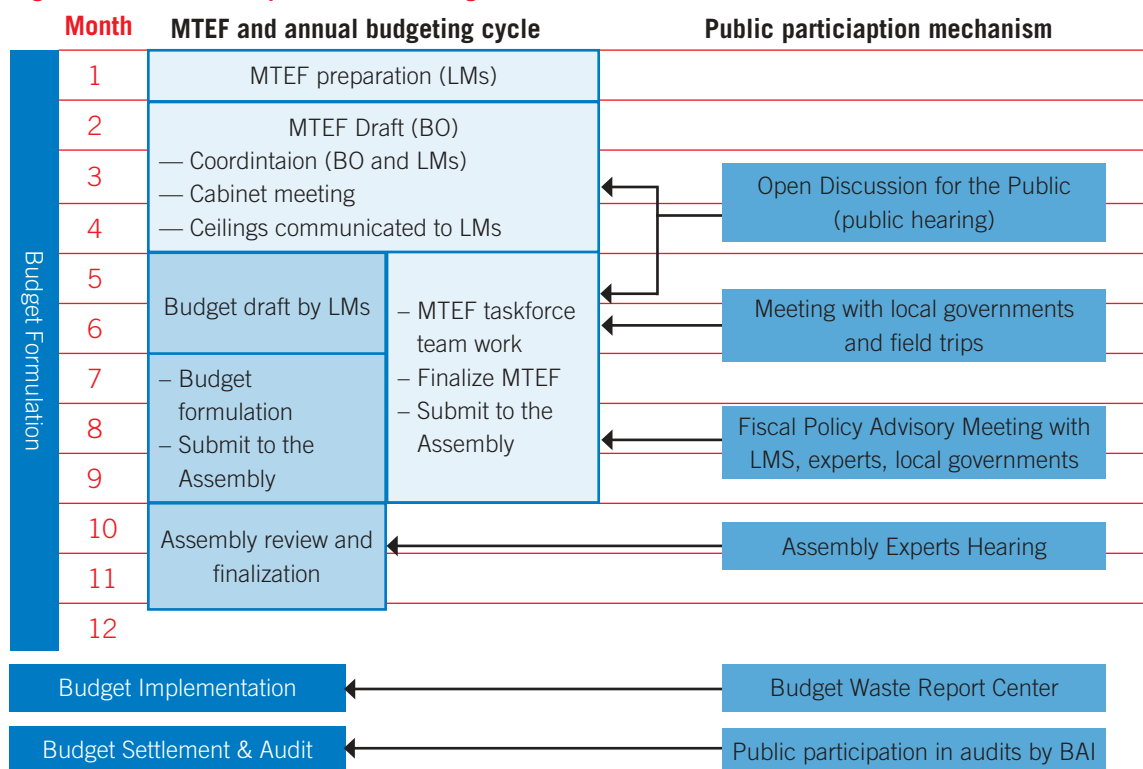
The annual budget and MTEF cycle begins in January with line ministries and the Budget Office adjusting the ceilings from those of the previous year as a starting point and setting important policy priorities. After line ministries prepare their budget requests, the Budget Office sets ceilings in consultation with stakeholders consisting of budget experts, academic scholars, and the private sector. In this part of the process, a number of projects may require feedback from the public with

regard to policy direction on which stakeholders have different positions. This is where ODP comes in. Programs selected for discussion at the ODP are usually those that could incur high costs and those that have a direct impact on the quality of life of the citizens.

In general, 12 sectors participate in the ODP. It is held for five to six days addressing two or three sectors per day. Each sector, such as social welfare and health, infrastructure, and the environment, is allotted one 90-minute session for deliberation and discussion (usually on two or three broad issues), which concludes with questions and comments from the floor. To ensure a balanced perspective, each sector convenes a panel consisting of public financial management experts, high-level government officials from line ministries and the Budget Office, budget execution entities, and civil society organizations. Any individual interested in the topics can attend. The public is informed of the overall schedule and agenda in advance through the press and the venue can usually accommodate about 300 people. The hearings are publicly televised to ensure transparency and access to information.

In its early years (2005–07), the ODP was held in March and April in time for public inputs to be

Figure 1. Public Participation in the Budget and MTEF Formulation Processes



Source: Authors' illustration.

Note: BO = Budget Office; LMS = line ministries; MTEF = Medium Term Expenditure Framework.

reflected in the draft MTEF before the President and the Cabinet endorsed the adjusted ceilings and policy directions at the Fiscal Strategy cabinet meeting. This increased the workload of the Budget Office. To reduce this burden, the ODP was moved to May and June, after the ceilings had been distributed to the line ministries. Despite the schedule change, the ODP continued to influence the ceilings because the ceilings can be adjusted with ODP inputs before submission to the National Assembly in September.

Despite success at fostering public participation, the ODP was criticized by some academics for being an impractical and inefficient means for determining exact budget amounts for projects. A number of reasons contributed to concerns about the limitations of the ODP. First, the ODP is open to the general public so citizens from all walks of life, with little or no expertise, come to provide their opinions on how and where to allocate funds. Second, sometimes budget allocations might not be the most effective way to fund a specific program. A systematic reform or tax benefits reviewed in conjunction with the budget may be a more suitable approach. Third, budget allocations for projects should not be considered in isolation. Projects should be reviewed under the overall fiscal envelope and according to their prioritization within the national plan. Fourth, more than 8,000 government programs pass through the Budget Office annually, making it impossible to address each one comprehensively at the ODP.

See box 1 for influence of the ODP process on the social welfare sector.

Meeting with Local Governments and Field Trips

In May and June, line ministries prepare their draft budgets with ceilings in collaboration with local governments. This is a significant stage in the budget cycle because it is the point at which local governments are called in to participate. Before 2009, opportunities were limited for local governments to engage in the budget process, but as essential partners in budget formulation, budget authorities realized local governments needed to be informed of the central government's fiscal situation, policy direction, fiscal space, and the inputs received at the ODP. For their part, local governments should be able to provide their respective positions on identified fiscal projects.

As a response, since 2009 the Budget Office has been arranging meetings with local governments throughout May and June to learn about their needs and to get updates on projects being implemented at the local level. A team from the Budget Office consisting of the Vice Minister or the Head of the Budget

Office, Directors General, and Directors takes a field trip to the 16 major provinces and cities of Korea. The visiting team shares information about the central government's fiscal status and fiscal decisions made at the cabinet meeting, and facilitates discussion on areas for which cooperation is needed. The teams make on-site inspections to check the status of fiscal projects by interviewing local citizens and other project stakeholders. In turn, the local governments voice their opinions on projects, grants, and subsidy programs. At this point, local governments can request that the central government representatives support their regional agendas.

Between July and early September, after the field trips have taken place, the Budget Office compiles the inputs collected from the public, PFM experts, local governments, and line ministries, and then reviews them before the allocation of resources for each project. Once the draft budget is prepared, the Budget Office solicits further feedback from the various stakeholders. At times the Budget Office brings attention to some of the responses that have not been considered, if necessary, at the Fiscal Advisory Meeting.

Fiscal Policy Advisory Meeting

In September, before finalizing and submitting the budget to the National Assembly, the Budget Office consults with the Fiscal Policy Advisory Council (comprising line ministries, outside experts, and local governments) regarding the budget and the adjusted MTEF. The vice minister from every ministry, vice heads of the 16 local governments, and about 25 experts from academia and research institutes participate in the consultation process.

Assembly Experts Hearing

When the National Assembly receives the draft budget from the government, a Special Committee on Budget opens a public hearing with budget experts; this meeting is called the Assembly Experts hearing. This public hearing was established in 2005 under the National Assembly Act. The experts are selected, in coordination with political parties, to include a diverse range of specialists. The hearing evaluates the overall economic and tax forecasts, fiscal stance, and the need to amend any expenditure programs. Should questions arise from the hearing, the Special Committee on Budget requests a query session with the government and makes adjustments to the draft budget if necessary.

The IBP emphasizes that participation should occur throughout the entire budget process, including budget implementation and settlement (IBP 2012).

Box 1. ODP Feedback on Budget Allocation for Social Welfare Sector

Given the limitations of the ODP, it is important to evaluate whether and how ODP feedback is used in formulating policy direction and budget allocations in the medium term. To investigate its use and effect, this box reviews the ODP in the social welfare sector because this area has a high impact on citizens' quality of life.

The two major areas of interest at the ODP for the social welfare sector are child care and public health insurance. During 2005–12, five out of the nine ODPs focused directly on child care issues and three focused on public health insurance (see table B1). The following paragraphs illustrate what was discussed and how the resulting inputs were reflected in the budget.

Table. ODP Agendas for the Social Welfare Sector, 2005–12

Date	Agenda
06/13/2012	How to increase child care investment and improve effective child care programs
	How to design programs for the senior citizens
06/24/2011	What is the 2011–15 social welfare sector's policy direction?
	How to meet the fiscal needs of health insurance
06/22/2010	How to expand the policy target in Basic Living Security Guarantee to a higher income level
	How to make the social welfare program sustainable
08/31/2010 ^a	The coverage of free child care and policy on private day care centers
06/22/2009	How to improve the governance and cost efficiency of the public health insurance system
06/26/2008	How to improve child care
03/14/2007	How to enhance the private role in social welfare service delivery
	How to improve efficiency in social welfare service delivery
03/23/2006	How to advance the Basic Living Security Guarantee system
	How to make government subsidy to public health insurance and the medical allowance system sustainable
03/14/2005	How to cope with low birth and an aging population

Source: Ministry of Strategy and Finance Web site.

a. In August 2010, the Special Committee on Budget of the National Assembly requested a second public hearing just before the Budget Office concluded its budget reviews as a direct response to the criticisms of ODP. This public hearing was performed only once and focused solely on the exact allocation of budgets rather than debating policy direction or resource allocation at the aggregate level.

Child care. Since 2005, the main points consistently raised at the ODP have been the expansion of the target group receiving child care and the introduction of a monthly child care allowance. Both points have been reflected in the budget during the years since 2005. An increase in the child care budget relative to other areas was requested. The child care budget increased at an average annual rate of 27.2 percent from 2005 to 2013, surpassing the 8.5 percent annual growth rate of the social welfare sector as a whole. The target group expanded from low-income households to all households with children under age five. The government introduced a monthly child care allowance in 2009.

Public health insurance. The ODP brought two suggestions forward for sustaining fiscal stability in public health spending: (1) governance reform in public health insurance and (2) changes in economic incentives for health providers to refrain from increasing medical costs. Given the complexity of the public health insurance system and the various stakeholders involved, it is difficult to assess whether the ODP inputs are reflected in the policy process. Despite intense public pressure to increase the budget, the government successfully maintained a moderate 6.2 percent annual growth rate from 2005 to 2013, which is less than the 8.5 percent annual growth rate of the social welfare sector. However, specific ODP suggestions for achieving fiscal sustainability, such as governance reforms and changes in the incentive structure, were less successful because of conflicts among stakeholders.

In Korea, two public engagement mechanisms gather citizen feedback following budget formulation: the Budget Waste Report Center (BWRC) and the BAI.

Budget Waste Report Center

Citizens can report any suspected cases of budget waste online through the Ministry of Strategy and Finance Budget Waste Report Center website or by phone via the budget waste hotline. Any citizen can claim any misuse of the budget or suggest creative ways to save budget resources. Retired Budget Office officials with budgeting or budget implementation experience manage the hotline. They have sufficient knowledge to respond to the calls efficiently, send waste cases to relevant units, and most important, guide callers in the right direction. The system was adopted by the local governments as well.

To increase awareness and encourage citizen participation in reducing budget misuse, the government allocated funds to advertise how and where to report budget waste. As shown in Table 1, the number of reports received on budget waste increased from 2006 to 2007, suggesting a relationship to the increase in the public relations budget. In 2008, the advertising campaign was reduced because of budget cuts, resulting in a significant decrease in the number of reported cases of waste. When the Budget Office resumed advertising in 2011, the number of reports also increased.

Public Participation on Audit by Board of Audit and Inspection

The BAI facilitates participation in three ways. First, it posts the names of agencies to be audited along with the respective audit dates on its website and opens it

for citizen feedback. Citizens are encouraged to suggest what public entity operations or expenditures should be audited. Second, citizens can request the BAI to examine any reports of impropriety or inspect certain budgets throughout the budget implementation phase. Third, citizens can gather to collectively request audits of matters of public interest, including not only budget waste, but also extensive delays in program implementation and completion, and unreasonable public policy. These requests have more gravity and significance for BAI. The following qualify to petition for this type of audit: (1) a group of more than 300 citizens age 19 and older, (2) civil society organizations consisting of 300 or more members, (3) the head of a public entity, or (4) the local assembly. The acceptance rate for this third type of participation is illustrated in Table 2.

Other Participation Efforts: Competition for Ideas

In addition to the government's efforts to engage the public throughout the budget cycle, it initiated an innovative pilot activity to bring about public participation in the project design phase. In July 2012, the Budget Office launched its first nationwide contest to gather creative ideas from the public on new fiscal projects. The objective of the contest was to engage the public in providing opinions on what and how projects should be designed. A total of 866 ideas were submitted and transferred to the related ministries or agencies, which then selected the best ideas that could reasonably be implemented as actual projects.

Out of the 866 submissions, 12 suggestions (both new project ideas and ideas that expanded on ongoing projects) were reflected in the budget. Some of the ideas highlighted as creative and reasonable include (1) the establishment of a network for small and medium

Table 1. Relationship between Awareness Campaign and Reports of Budget Waste

	2006	2007	2008	2009	2010	2011	2012
Number of reports	570	838	570	448	208	164	212
Budget for Public Relations (hundred million Korean won)	11	19	0	0	0	0.3	0.3

Source: Ministry of Strategy and Finance.

Table 2. Reports Received from the Public and BAI's Acceptance Rate for Requests to Audit Matters of Public Interest

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Number of reports	40	79	104	126	110	118	138	148	108	169	180	1,320
Acceptance rate (percent)	53.3	63.0	71.2	61.6	64.0	32.6	26.1	21.4	40.0	29.4	41.3	41.7

Source: Board of Audit and Inspection.

companies by function or by region for better coordination and information sharing, and to improve the companies' bargaining power and reduce costs; and (2) a mentoring program through which college students guide and teach children from low-income households.

Conclusion

This note highlights ways in which the public can be engaged in the budget process. The level of public participation in Korea was influenced by both social consensus and political will. Incorporating public participation mechanisms in the budget process was possible because it received support from budget authorities and political leaders as well as nongovernmental organizations. Without social and political support, it would have been difficult to initiate or sustain public participation.

In addition, Korea's participation mechanisms were created in parallel to ongoing PFM reforms, MTEFs in particular, and were inserted in a variety of ways throughout the different parts of the budget process. Including diverse stakeholders to get their inputs at various stages of the budget process was essential, especially during the setting of budget ceilings, the submission of the budget to the National Assembly, and the finalization of the budget at the National Assembly. Equally important was the involvement of the public after budget implementation through the reporting of budget waste using the Ministry of Strategy and Finance website and hotline, and making sure that the BAI investigates fraudulent activities.

Notes

1. The MTEF in Korea is well integrated into the budget cycle and consistent with the annual budget, as illustrated in Figure 1.
2. The National Fiscal Management Law (article 10) and its Enforcement Decree (article 6) provide a legal basis for the Advisory Council. The law clearly

describes that the council is advisory but a necessary process for the following agenda: (1) MTEF; (2) Public Fund Plan; (3) budget formulation guidelines; (4) evaluation results on public funds; (5) new special accounts or public funds; (6) amendments on fiscal laws; (7) budget reform; and (8) any other agenda requested by the Minister of Strategy and Finance. Furthermore, the committee can gather related experts or government officials in the meeting for opinions.

3. The enforcement decree of the National Fiscal Management Law (article 51) articulates that every ministry and all entities responsible for public resources should establish a hotline for citizens to report fraud and should follow up with citizens on how the issue was resolved. In addition, there are rewards for suggestions that lead to actual budget savings.

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